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PASS TO UNDER SECRETARY COOPER

FOLLOWING REPEAT OECD PARIS 11817 ACTION SECSTATE
DATED APRIL 21:

QTE:C O N F I D E N T I A L OECD PARIS 11817

PASS E FOR COOPER, CEA FOR SCHULTZE, TREASURY FOR
SOLOMON AND BERGSTEN

E.O. 11652: GDS
TAGS: ECON, EFIN, OECD
SUBJECT: IMPROVING EFFICIENCY OF OECD STRUCTURE FOR
DEALING WITH ECONOMIC POLICY COORDINATION AND BALANCE
OF PAYMENTS ADJUSTMENT

REF: OECD PARIS 9564

SUMMARY AND INTRODUCTION

1. DURING SECGEN VAN LENNEP'S VISIT TO WASHINGTON LAST
MONTH, TREASURY SECRETARY BLUMENTHAL AND UNDER SECRETARY
SOLOMON PROPOSED THAT SERIOUS THOUGHT BE GIVEN TO
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IMPROVING THE OECD'S STRUCTURE FOR DEALING WITH MACRO-
ECONOMIC ISSUES AFFECTING DOMESTIC ECONOMIC POLICIES
AND BALANCE OF PAYMENTS ADJUSTMENT. THE ISSUE AFFECTS
MAINLY THE ORGANIZATION OF THE ECONOMIC POLICY COMMITTEE
(EPC), ITS RESTRICTED BUREAU, AND ITS WORKING PARTY 3.
AS PROMISED IN REFTEL, THIS MESSAGE DISCUSSES THE KEY
ELEMENTS OF THE ISSUE, SUGGESTS SOME OPTIONS FOR DEALING
WITH IT, AND RECOMMENDS A PREFERRED COURSE OF ACTION
FOR WASHINGTON'S CONSIDERATION. THIS RECOMMENDATION IS
DESIGNED TO STREAMLINE THE STRUCTURE AND CUT DOWN ON

THE TRAVEL COMMITMENTS OF SENIOR OFFICIALS. IT ENTAILS GREATER CONCENTRATION OF DISCUSSIONS OF MAIN MACRO AND ADJUSTMENT POLICIES IN A RESTRICTIVE FRAMEWORK BRINGING TOGETHER PARTICIPANTS IN EPC BUREAU AND WP-3. WHILE MAINTENANCE OF WP-3 AS A HIGH LEVEL BODY IS ENVISIONED, ITS WORK PROGRAM WOULD BE MORE CLEARLY FOCUSED ON EXTERNAL ECONOMIC ISSUES TO AVOID DUPLICATION WITH EPC. (SOME SUGGESTED ITEMS FOR WORK PROGRAM ARE MENTIONED UNDER PARAGRAPH 7 BELOW.) IN THIS CONCEPTION, WP-3 WOULD DELEGATE MOST OF ITS WORK TO MORE TECHNICAL GROUPS AND WOULD NORMALLY MEET ONLY IN CONJUNCTION WITH OTHER MEETINGS (USUAL FORMULA BEING BACK-TO-BACK WITH EPC). END SUMMARY AND INTRODUCTION

BACKGROUND

2. AS MISSION UNDERSTANDS IT, CONCERNS RAISED BY TREASURY OFFICIALS WITH VAN LENNEP WERE BOTH CONCEPTUAL AND PROCEDURAL. IN CONCEPT, THERE IS THE FEELING THAT WITH THE ADVENT OF THE RELATIVELY FLEXIBLE MONETARY SYSTEM UNDER WHICH THE WORLD NOW OPERATES, IT IS MUCH MORE DIFFICULT THAN IN THE PAST TO SEPARATE "DOMESTIC" ECONOMIC POLICY FROM POLICIES DESIGNED TO INFLUENCE THE BALANCE OF PAYMENTS ADJUSTMENT PROCESS. IN FACT, EXPERIENCE HAS SHOWN THAT DURING THE RECENT COUPLE OF YEARS EPC HAS INCREASINGLY FOUND ITSELF DEALING WITH CONFIDENTIAL

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ISSUES OF ADJUSTMENT, WHILE WP-3 HAS TENDED TO PAY MORE ATTENTION THAN BEFORE TO THE OVERALL STANCE AND DIRECTION OF COUNTRIES' ECONOMIC POLICIES. ALSO, THE IMPRESSION HAS GROWN THAT THE QUALITY OF EPC MEETINGS HAS TENDED TO IMPROVE, WHILE THAT OF WP-3 HAS DETERIORATED, AT LEAST PARTLY BECAUSE OF THIS CHANGE IN EXTERNAL CIRCUMSTANCES WHICH WAS NOT FORESEEN WHEN THE MANDATES OF THE TWO GROUPS WERE ESTABLISHED (ALTHOUGH WP-3'S TERMS OF REFERENCE DO IN FACT INCLUDE MONITORING OF MONETARY, FISCAL AND OTHER NATIONAL POLICIES, AND AT TIMES HAS TURNED IN DEPTH TO CONSIDERATION OF SUCH QUESTIONS). FURTHERMORE, WP-3 HAS LATELY BEEN SPENDING A GOOD DEAL OF ITS TIME IN LISTENING TO STATEMENTS FROM COUNTRY DELEGATIONS ON THE SHORT-TERM OUTLOOK FOR ECONOMIC GROWTH AND CURRENT BALANCES, LARGELY DUPLICATING SIMILAR EXPOSITIONS IN THE EPC.

3. FROM THE PROCEDURAL POINT OF VIEW, THE INTEREST OF THE U.S.G. IS TO MINIMIZE DUPLICATION, TO STREAMLINE THE INSTITUTIONAL FRAMEWORK FOR INTERNATIONAL CONSIDERATION OF MACRO POLICIES (IN A WIDE SENSE) AND TO CUT DOWN ON THE NEED FOR HIGH LEVEL OFFICIALS TO ATTEND REDUNDANT INTERNATIONAL MEETINGS.

PREMISE

4. THE FOLLOWING DISCUSSION OF OPTIONS AND THE RESULT-
ING RECOMMENDATION IS BASED ON THE PREMISE THAT A CHANGE
IN THE STATUS QUO IS POSSIBLE. WE HAVE, HOWEVER, NOT
TESTED THIS OUT WITH OTHER DELEGATIONS, AND IT MAY OF
COURSE BE THAT ANY SUGGESTED CHANGES WILL RUN INTO VERY
STRONG OPPOSITION FROM IMPORTANT PARTICIPANTS FROM
OTHER COUNTRIES. AT THE SAME TIME, IT IS RELEVANT TO
NOTE THAT THE FACT THAT CHAIRMANSIPS OF BOTH EPC AND
WP-3 WILL CHANGE IN THE COURSE OF THE YEAR GIVES A
BETTER OPPORTUNITY FOR SUCCESSFULLY PRESSING CHANGES
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THAN MIGHT OTHERWISE BE THE CASE.

BASIC OPTIONS

5. MISSION BELIEVES THAT, REALISTICALLY, THE OPTIONS
FOR CHANGE IN THE EPC/WP-3 STRUCTURE ARE MAINLY THE
ONES OUTLINED BELOW:

OPTION I

CONCENTRATE MACRO AND ADJUSTMENT POLICY IN EPC, WHILE
SUPPRESSING WP-3 IN ITS PRESENT FORM, MAKING IT A
PLENARY TECHNICAL WORKING PARTY OF EPC ON BALANCE OF
PAYMENTS ADJUSTMENT AKIN TO WP-2 ON GROWTH AND
WP-4 ON PRICES AND COSTS.

A. IMPLICATIONS: WE ASSUME THAT IN ORDER TO ACHIEVE
THE DESIRED RESULT, THE COMPOSITION OF DELEGATIONS TO
EPC WOULD HAVE TO CHANGE IN THE CASE OF A FEW COUNTRIES
SO AS TO ENCOMPASS REPRESENTATION OVER A SOMEWHAT WIDER
SPECTRUM OF POLICY. AS WE INTERPRET THE PROPOSAL MADE
IN DISCUSSIONS WITH VAN LENNEP, THE U.S. DELEGATION
WOULD BE CO-CHAIRLED BY THE CEA CHAIRMAN AND THE
TREASURY'S UNDER SECRETARY FOR MONETARY AFFAIRS.
PRESUMABLY THESE TWO WOULD ALSO ATTEND THE EPC'S
RESTRICTED BUREAU, AND THE IMPLICATION OF THIS OPTION
WOULD SEEM TO BE THAT THE BUREAU (WHICH REPRESENTS THE
OECD'S BIG SEVEN, I.E. SUMMIT COUNTRIES) WOULD BE USED
EVEN MORE ACTIVELY THAN IN THE PAST FOR CONFIDENTIAL
EXCHANGES ON POLICIES AFFECTING BOTH DOMESTIC ECONOMY
AND BALANCE OF PAYMENTS. APART FROM AN ADDITIONAL
PERSON FROM THE U.S., THE MAIN OTHER EXPANSION OF THE
BUREAU MIGHT HAVE TO BE THE ADDITION OF A FINANCE
MINISTRY REPRESENTATIVE FROM GERMANY AND POSSIBLY A
REPRESENTATIVE FROM THE JAPANESE FINANCE MINISTRY.
(EVEN THIS PROBLEM MAY BE MINIMAL. ISSUE FOR GERMANY
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WOULD BE EASED IN EVENT THAT FINANCE MINISTRY REPRESENTATIVE WOULD BECOME CHAIRMAN OF WP-3--SINCE LATTER IS EX OFFICIO MEMBER OF EPC BUREAU AND LEADERSHIP OF JAPAN'S REPRESENTATION IN EPC MAY BE CHANGING FROM ECONOMIC PLANNING AGENCY TO FINANCE MINISTRY.)

B. ADVANTAGES: THE ADVANTAGES OF THIS OPTION ARE:

1) IT WOULD ACHIEVE A MORE INTEGRATED EXAMINATION OF ENTIRE RANGE OF DOMESTIC AND EXTERNAL MACRO POLICY AND MAY REDUCE TRAVEL TO OECD BY CEA CHAIRMAN AND TREASURY UNDER SECRETARY TO THREE TIMES A YEAR (APART FROM OECD MINISTERIAL). MORE EFFECTIVE USE OF EPC BUREAU MIGHT OF COURSE MAKE IT USEFUL FOR THIS BODY TO MEET MORE FREQUENTLY BETWEEN EPC MEETINGS, BUT SOME OF THESE COULD TAKE PLACE IN WASHINGTON (SUCH AS FORTHCOMING MEETING ON APRIL 29 ON OCCASION OF INTERIM COMMITTEE MEETING.)

2) IT WOULD ENHANCE THE USEFULNESS OF THE EPC'S RESTRICTED BUREAU WHICH HAS THE VIRTUES OF CONFIDENTIALITY AND A COUNTRY CONFIGURATION WHICH COINCIDES WITH THAT OF THE SUMMIT.

3) AN ADDITIONAL PROCEDURAL ADVANTAGE WOULD BE THAT ABOLISHING WP-3 IN ITS PRESENT FORM AND TRANSFORMING IT INTO A TECHNICAL BALANCE OF PAYMENTS GROUP OF THE EPC WOULD PLEASE THE SMALL COUNTRIES, WHO HAVE TRADITIONALLY RESENTED THE EXCLUSIVITY OF WP-3. IT WOULD ALSO ACHIEVE SOME ECONOMIES BY MAKING IT POSSIBLE TO MERGE WP-3 AND THE PRESENT TEMPORARY WORKING PARTY OF THE EPC WHICH HAS BEEN DEALING WITH SPECIAL PROBLEMS SUCH AS FINANCIAL ASPECTS OF CIEC AS WELL AS FOLLOWING THE BALANCE OF PAYMENTS DEVELOPMENTS OF THE SMALLER OECD COUNTRIES.

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C. DISADVANTAGES: THE DISADVANTAGES OF THIS OPTION ARE SEVERAL:

1) THE RESULT MAY TURN OUT IN THE END NOT TO BE SUCCESSFUL, EVEN IF AGREEMENT IN PRINCIPLE IS GIVEN BY THE OTHER COUNTRIES CONCERNED. THE EPC IN ITS PLENARY FORMAT IS ITSELF AN IMPERFECT VEHICLE FOR HOLDING A POINTED DISCUSSION ON SENSITIVE POLICY ISSUES AND A GOOD DEAL OF TIME IS EMPLOYED IN RELATIVELY PEDESTRIAN--AND OFTEN TEDIOUS--STATEMENTS BY THE SMALLER COUNTRIES OF THEIR CURRENT CONCERNS (AIMED FREQUENTLY AT THEIR AUDIENCES AT HOME MORE

THAN AT THEIR EPC COLLEAGUES). MOREOVER, SOME OF THE OTHER COUNTRIES MAY SIMPLY NOT BE WILLING OR ABLE TO ADJUST BUREAUCRATICALLY TO THE NEW FORMAT (E.G., CURRENT GERMAN DELEGATE TO WP-3, POEHL, OF THE FINANCE MINISTRY, OUTRANKS PRESENT GERMAN DELEGATE TO EPC, TIETMEYER, OF ECONOMICS MINISTRY, AND IT MAY NOT BE POSSIBLE FOR THE TWO MINISTRIES TO AGREE ON APPROPRIATELY HIGH LEVEL JOINT REPRESENTATION COMPARABLE TO WHAT U.S. HAS IN MIND--ALTHOUGH SEE COMMENT UNDER A ABOVE).

2) DISBANDING WP-3 WOULD BE A VERY SERIOUS MOVE WHICH WOULD PROBABLY BE IRREVERSIBLE. WP-3 IS ONLY EXISTING OECD BODY OF REPRESENTATIVES FROM CAPITALS THAT IS FORMALLY CONSTITUTED AS A RESTRICTED FORUM. WE MAY HAVE NEED FOR SUCH A FORUM IN THE FUTURE BUT ARE NOT LIKELY TO GET IT BACK ONCE IT IS DISSOLVED.

3) THE EPC BUREAU IS A FRAGILE CREATION (SEE OECD PARIS 10340). IT IS NOT A RECOGNIZED BODY, AND IF NON-PARTICIPANTS WERE EVER TO LAUNCH A SERIOUS ATTACK ON IT, IT MIGHT NOT SURVIVE.

4) ELIMINATION OF WP-3 AS A HIGH LEVEL, RESTRICTED CONFIDENTIAL

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COMMITTEE WOULD BE GREATLY RESENTED BY THOSE IMPORTANT MEDIUM SIZED OECD COUNTRIES WHO PARTICIPATE IN WP-3 BUT ARE NOT IN THE BIG SEVEN (I.E., BENELUX, SWEDEN, AND SWITZERLAND). SWITZERLAND WOULD BE PARTICULARLY MIFFED SINCE IT IS NOT A MEMBER OF THE IMF.

5) A RESTRICTED FORUM WOULD BE LOST WHERE BOTH FINANCE MINISTRY AND CENTRAL BANK REPRESENTATIVES HAVE AN OPPORTUNITY TO EXAMINE ISSUES TOGETHER, SINCE THE COMPOSITION OF WP-3 RESTS ESSENTIALLY ON HIGH-LEVEL OFFICIALS FROM THESE TWO SECTORS OF THE GOVERNMENT.

OPTION II

CONCENTRATE MACRO AND ADJUSTMENT POLICY IN EPC, WHILE KEEPING WP-3 AS A RESTRICTED FORUM WITH ITS PRESENT COMPOSITION OF MEMBERS, BUT DROPPING THE LEVEL OF REPRESENTATION TO ROUGHLY DEPUTY ASSISTANT SECRETARY OR EQUIVALENT.

A. IMPLICATIONS: THIS OPTION WOULD MEAN A LESS DRASTIC CHANGE THAN UNDER OPTION I. PRESUMABLY EPC AND ITS RESTRICTED BUREAU WOULD SEEK TO ADOPT A NEW OPERATING MODE PRETTY MUCH AS DESCRIBED UNDER THE PRECEDING OPTION. WP-3 WOULD PLAY A MORE TECHNICAL ROLE AND WOULD PROBABLY NOT MEET AS OFTEN AS WP-3 HAS IN THE

PAST, ALTHOUGH IT WOULD PRESUMABLY MEET AT LEAST PRIOR TO EACH EPC, I.E., TWO OR THREE TIMES A YEAR.

B. ADVANTAGES: THE ADVANTAGES OF THIS OPTION ARE ESSENTIALLY THE SAME AS THOSE ENUMERATED UNDER OPTION I EXCEPT THAT KEEPING WP-3 AS A RESTRICTED BODY WOULD MAKE IT POSSIBLE TO MERGE WP-3 AND TWP. ON THE OTHER HAND, THERE WOULD BE THE ADDITIONAL BENEFIT (AND THE CONCURRENT REMOVAL OF A DISADVANTAGE) THAT WP-3 WOULD BE KEPT AS A RESTRICTED BODY AND THE OPPORTUNITY WOULD BE CONFIDENTIAL

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BE LEFT OPEN THAT ITS LEVEL OF REPRESENTATION MIGHT BE RAISED AGAIN SHOULD THE NEED ARISE.

C. DISADVANTAGES: THE DISADVANTAGES CITED UNDER C 1), 3) AND 4) OF OPTION I WOULD REMAIN, ALTHOUGH THEY WOULD HAVE SOMEWHAT LESS FORCE. IN ADDITION THERE IS SERIOUS DOUBT WHETHER, IN THE ABSENCE OF SENIOR POLICY OFFICIALS, THE KIND OF FRANK AND INCISIVE EXCHANGES THAT HAVE CHARACTERIZED WP-3 AT ITS BEST COULD TAKE PLACE. THERE WOULD ALSO BE AN AWKWARD INSTITUTIONAL GAP CREATED IN HAVING OFFICIALS WHO WORK UNDER THE INSTRUCTION OF POLICY MAKERS MEET IN A RESTRICTED GROUP, WHILE REPORTING TO THE POLICY LEVEL IN A PLENARY MEETING WITH A VAST AGENDA. ANOTHER CONSIDERATION IS THAT, IF THE INNOVATION UNDER THIS OPTION DOES NOT WORK WELL, IT WILL NOT BE VERY EASY TO RECONSTITUTE THE HIGH LEVEL CHARACTER OF WP-3, AND MUCH CROCKERY MAY HAVE BEEN BROKEN IN THE PROCESS, IN TERMS OF DISPLEASING SOME OF THE HIGH LEVEL FINANCE MINISTRY AND CENTRAL BANK OFFICIALS WHO MAY BE VERY DOUBTFUL ABOUT THE UTILITY OF DOWN-GRADING THE LEVEL OF WP-3. FINALLY, LOWERING THE LEVEL OF WP-3 WOULD MAKE IT MORE DIFFICULT TO HAVE BACK-TO-BACK MEETINGS OF WP-3 AND THE G-10 DEPUTIES (THESE ARE NOW POSSIBLE BECAUSE UNDER CURRENT ARRANGEMENTS THE PARTICIPANTS ARE VIRTUALLY THE SAME). THIS FORMAT HAS SOMETIMES PROVEN QUITE USEFUL AS WELL AS HELPING TO CUT DOWN ON TRAVEL AND ATTENDANCE OF SENIOR OFFICIALS.

OPTION III

A SOMEWHAT MORE TENTATIVE APPROACH OF CONCENTRATING THE MAIN COORDINATION OF MACRO AND ADJUSTMENT POLICY IN EPC, WHILE KEEPING WP-3 ALIVE AS A FORMAL HIGH LEVEL COMMITTEE BUT DEFACTO MEETING ONLY AS NECESSARY. MOST OF WP-3'S WORK WOULD BE ASSIGNED TO LOWER LEVEL CONFIDENTIAL

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DEPUTIES OR TO TECHNICAL EXPERTS, AS APPROPRIATE.
MEETINGS OF WP-3 AT SENIOR LEVEL WOULD USUALLY BE
HELD ONLY BACK-TO-BACK WITH EPC, FACILITATING ATTENDANCE
OF WP-3 PARTICIPANTS IN EPC BUREAU.

A. IMPLICATIONS: THIS WOULD BE A MORE EXPERIMENTAL
OPTION WHICH WOULD GO QUITE FAR IN THE DIRECTION
SUGGESTED BY THE PROPOSAL MADE TO VAN LENNEP IN
WASHINGTON, AND YET NOT PRECLUDE THE POSSIBILITY OF
DOING SOME BACK-TRACKING IF THAT SHOULD TURN OUT TO
BE INDICATED. IT COULD ALSO BE MORE EVOLUTIONARY IN
CHARACTER IN THAT CHANGES IN THE AGENDA AND
REPRESENTATION OF THE EPC AND ITS BUREAU COULD BE
UNDERTAKEN GRADUALLY, ON THE BASIS OF CAREFUL CON-
SULTATIONS WITH OTHER INTERESTED COUNTRIES AND IN THE
LIGHT OF EXPERIENCE GAINED IN MAKING THE INITIAL
INNOVATIONS IN THE DESIRED DIRECTION.

B. DISCUSSION: THIS OPTION TENDS TO MAXIMIZE THE AD-
VANTAGES OF BOTH OPTIONS I AND II WHILE MINIMIZING THE
VARIOUS NEGATIVE FEATURES THAT HAVE BEEN LISTED FOR
THOSE TWO ALTERNATIVES.

COMMENTS AND RECOMMENDATIONS

6. OTHER OPTIONS: ALTERNATIVES BESIDES THOSE LISTED
ABOVE ARE OF COURSE POSSIBLE. FOR EXAMPLE, ONE
POSSIBILITY THAT HAS OCCURRED TO US WOULD BE THAT OF
SHIFTING MORE OF THE OVERALL MACRO POLICY COORDINATION
FROM EPC INTO WP-3 AS PRESENTLY CONSTITUTED. THIS
HAS THE ATTRACTION OF LODGING THIS DISCUSSION IN AN
INSTITUTIONALIZED FORUM WHICH IS RESTRICTED AND YET
REPRESENTS A SOMEWHAT WIDER SPECTRUM OF KEY COUNTRIES
THAN THE EPC'S RESTRICTED BUREAU. IT MIGHT BE DIFFICULT
TO STRETCH WP-3'S MANDATE VERY MUCH IN THIS DIRECTION
WITHOUT STRONG PROTESTS FROM THE SMALL OECD COUNTRIES,
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BUT THERE IS PROBABLY AT LEAST SOME FLEXIBILITY TO
MOVE ALONG THIS LINE. IT IS DOUBTFUL THAT THERE WOULD
BE MUCH OF A SAVING IN DUPLICATION AND IN TRAVEL
SINCE IT WOULD PROBABLY BE IMPOSSIBLE TO REDUCE THE
NUMBER OF EPC MEETINGS TO LESS THAN TWICE A YEAR.
WE DO NOT FAVOR THIS OPTION AT THE PRESENT TIME, BUT
FELT IT WORTHWHILE TO MENTION IT SINCE IT MIGHT BECOME
MORE ATTRACTIVE IN THE FUTURE (E.G., IF FOR SOME
REASON IT BECOMES UNTENABLE TO CONTINUE THE EPC'S
RESTRICTED BUREAU) AND THERE ARE VARIATIONS OF OPTION
III WHICH MIGHT PLACE MORE EMPHASIS THAN OTHERS ON
MACRO-POLICY TREATMENT IN A WP-3 WHICH WOULD HAVE
STRONGER LINKS WITH THE EPC BUREAU BOTH IN SUBSTANCE AND
IN COMPOSITION.

7. CONTINUING ROLE FOR A BALANCE OF PAYMENTS COMMITTEE IN OECD: IT IS CERTAINLY TRUE THAT THE EVOLUTION WHICH HAS TAKEN PLACE IN THE MONETARY SYSTEM HAS BLURRED THE DISTINCTION BETWEEN DOMESTIC POLICY AND POLICY DESIGNED TO HAVE AN EFFECT ON THE EXTERNAL SECTOR. THIS MEANS THAT AT THE HIGHER POLICY LEVELS SUCH AS IN EPC THE TWO CONSIDERATIONS--THE DOMESTIC AND THE EXTERNAL--SHOULD BE BROUGHT TOGETHER AND DISCUSSED JOINTLY. NEVERTHELESS, WE CONTINUE TO SEE BOTH A SUBSTANTIVE AND AN INSTITUTIONAL NEED FOR DISCUSSING BALANCE OF PAYMENTS TRENDS AND ADJUSTMENT POLICIES AMONG OFFICIALS WHO HAVE THE PARTICULAR RESPONSIBILITY FOR LOOKING AT THE EXTERNAL SECTOR AND ARE MORE SENSITIVE TO ITS IMPLICATIONS. EVEN RECOGNIZING THAT THE IMF IS CHARGED WITH THE PRINCIPAL RESPONSIBILITY FOR SURVEILLANCE OVER EXCHANGE RATE POLICIES AND THAT THE FUND WILL BE LOOKED UPON AS THE PRINCIPAL AGENT FOR NEGOTIATING CONDITIONALITY IN THE DEVELOPMENT OF THE STABILIZATION PROGRAMS OF THE DEFICIT COUNTRIES, THERE ARE STILL TASKS THAT WP-3 CAN USEFULLY PERFORM IN THE OECD UNDER GOOD CHAIRMANSHIP AND RELEVANT
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SECRETARIAT SUPPORT. HOWEVER, IT IS NOT NECESSARY FOR WP-3 TO MEET AS FREQUENTLY AS BEFORE AT THE DEPUTY MINISTER LEVEL, AS LONG AS THERE ARE OPPORTUNITIES FOR THAT LEVEL TO GET TOGETHER IN THE CONTEXT OF THE EPC (AND ESPECIALLY ITS BUREAU). ALSO, OF COURSE, WP-3 AND/OR SUBGROUPS THAT IT MIGHT CREATE SHOULD NOT MEET MERELY FOR THE SAKE OF GETTING TOGETHER, BUT ESSENTIALLY ONLY AS AND WHEN THERE IS SOMETHING WORTHWHILE TO DISCUSS. WE WOULD SEE SOME OF THE CONTINUING TASKS OF THE WP-3 TO BE THE FOLLOWING:

- REVIEW AND ANALYSIS OF THE MEDIUM TERM PROSPECTS FOR THE ADJUSTMENT PROCESS AND DRAWING POLICY CONCLUSIONS FROM THAT (I.E., DRAWING ON THE KIND OF STUDIES SUGGESTED AT THE LAST WP-3 MEETING AND WHICH WERE FOLLOWED UP BY THE GROUP OF EXPERTS WHICH MET ON MARCH 22-23).

- LOOKING AT THE APPROPRIATE ROLE THAT SURPLUS COUNTRIES SHOULD PLAY IN THE ADJUSTMENT PROCESS (HERE THE IMF HAS LESS OF A ROLE AND CERTAINLY LESS LEVERAGE).

- SINCE (DESPITE THE GREATER FLEXIBILITY OF THE NEW MONETARY SYSTEM) SOME COUNTRIES STILL HAVE EITHER EXPRESSED OR IMPLICIT BALANCE OF PAYMENTS AIMS, IT IS USEFUL TO ANALYZE THE IMPLICATIONS OF SUCH AIMS

FOR OTHER COUNTRIES AND HOW THEY FIT IN TO A
CONSISTENT AND SUSTAINABLE WORLD PATTERN OF PAYMENTS
BALANCES.

- ANALYSIS OF VARIOUS ASPECTS OF HOW THE ADJUSTMENT
PROCESS IS WORKING, SUCH AS (A) THE SUSTAINABILITY
OF EXISTING PATTERNS AND TRENDS AND THE RELATIVE
ROLES OF ADJUSTMENT AND OFFICIAL FINANCING SUGGESTED
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BY MEDIUM-TERM PROSPECTS IN VARIOUS COMPONENTS OF
THE BALANCE OF PAYMENTS, (B) THE NATURE OF CAPITAL
FLOWS AND THE ROLE OF THE BANKING SYSTEM, AND
(C) THE INTER-ACTION OF EXCHANGE RATES ON THE ONE HAND AN
AND DOMESTIC STRUCTURAL DEVELOPMENTS ON THE OTHER
HAND IN DETERMINING SHIFTS IN COMPETITIVE POSITIONS.

- EVEN IN THE CASE OF SOME SHORT-TERM DEVELOPMENTS THERE
MAY BE ACTUAL OR IMPENDING "CRISIS SITUATIONS" IN
EXTERNAL PAYMENTS IN WHICH THE WP-3 INSTITUTIONAL
FRAMEWORK CAN OFFER THE BEST FORUM FOR AN INCISIVE
ASSESSMENT BY THOSE POLICY OFFICIALS WHO ARE MOST
COMPETENT AND MOST INTERESTED IN THIS AREA.

8. OECD SECRETARIAT'S POSITION: MISSION UNDERSTANDS
THAT SECGEN VAN LENNEP AND OTHERS IN SECRETARIAT ARE
GIVING SERIOUS THOUGHT TO THE PROPOSAL MADE IN
WASHINGTON. SECRETARIAT RECOGNIZES THAT IMPENDING
CHANGE IN WP-3 CHAIRMANSHIP LENDS PARTICULAR URGENCY
TO CONSIDERATION OF THE FUTURE ROLE OF THIS COMMITTEE.
WE ARE TOLD THAT SECGEN WILL WISH TO GIVE AT LEAST
PRELIMINARY REPLY TO UNDER SECRETARY SOLOMON DURING
OCCASION OF INTERIM COMMITTEE MEETINGS IN WASHINGTON.
SECGEN WILL PROBABLY ALSO SUGGEST THAT IDEAS FOR
INSTITUTIONAL INNOVATION BE EXPLORED WITH SOME OF
THE OTHER MAIN INTERESTED COUNTRIES, PERHAPS
AT MARGINS OF NEXT WP-3 MEETING,
AND THAT THESE CONSIDERATIONS BE KEPT IN MIND IN
CONSIDERING QUESTION OF WP-3 AND EPC CHAIRMANSHIPS.

9. RECOMMENDATIONS: AS THE ANALYSIS OF THE THREE
BASIC OPTIONS SUGGESTS, THE MISSION BELIEVES THAT
OPTION III IS THE BEST WAY TO GO AND RECOMMENDS THAT
THE U.S. SHOULD DISCUSS THIS OPTION BOTH WITH THE
SECRETARIAT AND WITH THE OTHER PRINCIPAL OECD MEMBER
COUNTRIES CONCERNED. MOVING IN THE DIRECTION
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SUGGESTED BY OPTION III COULD BE PROGRESSIVE, WITH
FIRST STEP INCLUDING SCHEDULING WP-3 MEETINGS BACK-

TO-BACK WITH EPC SO AS TO FACILITATE SOLOMON
ATTENDANCE AT EPC BUREAU WITHOUT HIS NECESSARILY HAVING
TO COMMIT HIMSELF TO FULL PARTICIPATION IN EPC
PLENARY. IT MIGHT ALSO BE MADE AN INFORMAL RULE THAT
TO THE EXTENT FEASIBLE WP-3 AND G-10 DEPUTIES MEETING
SHOULD BE HELD CONTIGUOUSLY. THIS WOULD ALSO CUT
DOWN ON THE NEED FOR TRAVEL. IF WASHINGTON AGREES
WITH THIS APPROACH, U.S. OFFICIALS SHOULD TAKE EVERY
APPROPRIATE OCCASION TO PRESS THESE IDEAS WITH ITS
BIG SEVEN PARTNERS, AS WELL AS WITH THE OTHER
COUNTRIES PARTICIPATING IN WP-3. OBVIOUSLY, IT WILL
BE IMPORTANT TO MAKE SURE THAT THE PERSONS CHOSEN TO
BE THE NEW CHAIRMEN OF WP-3 AND EPC RESPECTIVELY ARE
AWARE OF THE NEW THINKING AND AGREE WITH IT.
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